

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, California 94105**

File No. REG-2008-00028

January 2, 2009

INITIAL STATEMENT OF REASONS

FREQUENCY AND SEVERITY BANDS MANUAL

INTRODUCTION

California Insurance Commissioner Steve Poizner will hold a public hearing to consider changes to Title 10, Chapter 5, Subchapter 4.7, section 2632.9(e) of the California Code of Regulations. The date, time and location for the public hearing as well as applicable contact information are set forth in the Notice of Proposed Action for this rulemaking matter.

California Insurance Code section 1861.02(e) provides that the Commissioner shall adopt regulations implementing the manner in which insurers develop private passenger automobile rates and rating factors. By this proposed rulemaking action, the Commissioner hereby proposes an amendment to Title 10, section 2632.9 of the California Code of Regulations, entitled "Use of Data." As is explained below, the proposed change is necessary to ensure that the regulations are consistent with contemporary data and existing law. The Commissioner invites public comment on these proposed changes.

STATEMENT OF SPECIFIC PURPOSE AND NECESSITY FOR REGULATIONS

The specific purpose of the proposed amendment and an explanation of the reasons why this amendment is required to fulfill the requirements of an automobile class plan are described directly below.

Section 2632.9(e)

The proposed regulation seeks to delete the reference to the outdated Frequency and Severity Bands Manual that was filed with the Secretary of State on July 5, 1996 and replace that Manual with the newly-updated Manual, adopted by the Department of Insurance on May 15, 2008.

This change is reasonably necessary to make sure that insurance companies are able to use the most current data in the development of their claims frequency and claims severity rating factors. This change is also reasonably necessary to implement the 2006 revisions to California Code of Regulations section 2632.5(d) (15) and (16) which expanded from 10 to 20 the number of claims frequency and claims severity bands that an insurer may use to group similar risks together. Because the new Frequency and Severity Bands Manual recognizes and accommodates the use of as many as 20 bands for claims frequency and 20 bands for claims severity, the proposed

regulations will guarantee that insurers have an opportunity to use data to support such groupings.

IDENTIFICATION OF STUDIES

There are no specific studies relied upon in the adoption of this article.

SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

The proposed amendment would require an insurer to use the updated Frequency and Severity Bands Manual if that insurer elects to use the optional rating factors of claims frequency and claims severity, but the insurer's own data lacks credibility. Except as provided under these circumstances, adoption of the proposed regulations would not mandate the use of specific technologies or equipment.

REASONABLE ALTERNATIVES

The Commissioner has identified no reasonable alternatives to the presently-proposed regulations. The Commissioner has determined that no reasonable alternatives exist to carry out the purpose for which the regulations are proposed. Performance standards were considered but were rejected as an unreasonable and impracticable alternative. Nevertheless, the Commissioner invites public comments on the proposed changes and reasonable alternatives which would be as effective to carry out the proposed changes.

ECONOMIC IMPACT ON BUSINESS

The Commissioner has initially determined that the proposed regulations will not have a significant adverse economic impact on businesses. Indeed, because the proposed regulation clarifies and ensures the use of updated data for one computational element of an automobile class plan filing, the Commissioner expects that the proposed regulations will have a positive rather than adverse impact on regulated businesses. The Commissioner, however, invites interested parties to comment on whether the proposed regulations will have a significant adverse economic impact on business.

ECONOMIC IMPACT ON SMALL BUSINESS

The Commissioner does not foresee that the proposed regulations will have an economic impact on small business. The proposed regulations may have an economic impact upon insurance companies; however, such companies are not small businesses within the meaning of Government Code section 11342.610. (Gov. Code Section 11342.610, subd. (b), para. (2).)

PRENOTICE DISCUSSIONS

All interested parties on the Commissioner's mailing list were mailed on November 25, 2008, an invitation to submit comments or to attend a prenotice discussion on December 19, 2008. No RSVPs or any comments were received. On December 12, a notice was mailed to all interested parties on the commissioner's mailing list cancelling the prenotice discussion. Adding this

absence of public response to a careful re-examination of the nature of this rulemaking, we have concluded that the proposed regulations do not, as the threshold requirement is stated by California government Code section 11346.45(a), "...involve complex proposals or a large number of proposals which cannot be easily reviewed during the comment period."